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AAFAF Chief Marrero Signals PREPA RSA 'Most Likely' Will Need Renegotiation, Given Lack of Legislative Support

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In a radio interview this morning, Puerto Rico Fiscal Agency and Financial Advisory Authority Executive Director Omar Marrero said the Puerto Rico Electric Power Authority's restructuring support agreement would "most likely" need to be renegotiated, given the lack of legislative support for the deal with the utility's bondholders and monoline insurers.

"Recognizing that the landscape in the Legislature isn't the most fertile" for passage of legislation contemplated in the RSA, "we understand that we will most likely have to go back to the bargaining table in the next 60 days," Marrero said, stressing that PREPA's restructuring is a top priority for him and for outgoing PROMESA oversight board Executive Director Natalie Jaresko.

Asked about Jaresko's resignation, which is effective April 1, Marrero signaled at that he was not surprised by the move, given the "status of the commonwealth's debt restructuring, the debate over changes to PROMESA in Washington and the need to wind down the oversight board to restore fiscal autonomy to Puerto Rico government." He noted Jaresko's aim to make progress on PREPA's restructuring under the current RSA before she leaves her post, which includes going back to legislative leaders by month's end to resume talks on a path forward for the RSA legislation, and reiterated the shared intention of the oversight board and the administration of Gov. Pedro Pierluisi to get the utility out of bankruptcy before the end of 2022.

Opposition in the Legislature to a demand protection charge in the RSA, which critics have dubbed a "sun tax," is among the various elements that may need to be "revisited" in the drive to get PREPA out of Title III bankruptcy, the AAFAF chief signaled.

"All of this possibly needs to be revisited, all elements including the charge that bondholders and the government - through the oversight board - are willing to accept," he said, noting that PREPA's restructuring is made more "complex" because of the additional bond protections contemplated in the RSA when compared with general obligation bonds.

Marrero defended the RSA's proposed recoveries for PREPA's bondholders, stating that the projected 33% haircuts on their recoveries are deeper than in most debt restructurings. "When you look at the history of these kinds of bonds in the municipal market, it is not typical to achieve such a substantial reduction. When you look at the precedents and compare them to PREPA, the proposed reduction is substantial and beneficial," he said.

The AAFAF chief said the recoveries have to be measured within the context of a consensual process that entails mediation and court supervision under PROMESA and the Bankruptcy Code that "protects the debtor but seeks to maximize creditor recoveries."

Marrero said the administration of Gov. Pedro Pierluisi "recognizes" that the current PREPA RSA "is the only agreement on the table" and also understands that the composition of PREPA's bondholder creditors has changed because of municipal market dynamics since the agreement was reached. "So if this has to be renegotiated, it will entail possibly revisiting various elements of the agreement," he said. "That is the challenge. While there is an agreement, we recognize the landscape isn't the most fertile for its passage. If we have to go back to the negotiating table, that could delay the process. But this is a priority."

The AAFAF chief stressed the importance of PREPA exiting Title III this year, noting that the utility's bankruptcy and "bad credit make everything more expensive," including fuel and power

procurement. He positioned PREPA's ongoing Title III proceedings as a prime obstacle to the government's renewable energy goals and its pivot to economic development initiatives following confirmation of the commonwealth plan of adjustment.

The AAFAF chief said a potential rate increase to cover PREPA's restructured debt and pension obligations - which he said currently total roughly $12 billion - could be mitigated by achieving efficiencies at PREPA and lower costs after emerging from bankruptcy. "The overarching goal should be to achieve the needed efficiencies to avoid having to pay a restructured debt that has an unreasonable impact on rates. But the reality is debt has to be paid. We haven't paid for the past seven years, and we need to get PREPA out of this restructuring process."

Marrero characterized PREPA as the "most essential" pending restructuring to "achieve fiscal stability and economic growth," adding that investors will not put their money into an island with an "unreliable and expensive" energy system. After PREPA, left pending for completion in 2022 will be "smaller credits" such as PRIDCO and others that do not require Title III processes, he said.
